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PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(A Revised Checklist of Itemized Deductions for Use in Taxable Year 1982)

AN INFORMATION PAPER

PREPARED BY THE STAFF OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

DECEMBER 1982

COMPLETED

This document has been printed for information purposes. It does not offer findings or recommendations by this committee

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PREFACE

To help assure that older Americans claim every legitimate income tax deduction, exemption, and tax credit, the Senate Special Committee on Aging, in cooperation with the Internal Revenue Service, has prepared this information paper for taxable year 1982. We hope you find this useful.

There are four prominent changes in tax law that you should consider when filling out your 1982 return: (1) A new form—Form 1040EZ—will be available for certain taxpayers; (2) charitable deductions may be claimed, even by those who do not itemize on their tax returns; (3) tax credits for expenses incurred for child and dependent care have been increased and out-of-home care for the disabled or spouse dependent may now, in some cases, qualify for tax credits; and (4) overall income tax rates have been reduced.

Keeping up with new tax provisions and filling out tax forms can be a very complicated process. In providing this information paper, the Senate Special Committee on Aging hopes to be of assistance to you.

JOHN HEINZ,
Chairman.
LAWTON CHILES,
Ranking Minority Member.

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IRS ASSISTANCE IS AVAILABLE TO HELP YOU

Tele-Tax: Beginning in January 1983, the Internal Revenue Service will begin a new telephone service called Tele-Tax. This service will provide recorded tax information tapes on over 100 topics covering such areas as filing requirements, dependents, itemized deductions, and tax credits. Tele-Tax will be available 24 hours a day, 7 days a week, to taxpayers who use push-button telephones. Brochures with listings of the topics covered and telephone numbers for your area will be available in many local banks and libraries.

Publications to assist you: The IRS prepares many free publications that will help answer your tax questions. In addition to the general Publication 17, "Your Federal Income Tax," publications are available on specific topics, such as "Tax Benefits for Older Americans" (Publication 554), "Highlights of 1982 Changes" (Publication 553), "Credit for the Elderly" (Publication 505), and "Taxpayer's Guide to IRS Information and Assistance" (Publication 910). Single copies of publications can be ordered by mail, using the order form in your tax package.

Other special IRS programs offering free assistance: Through the tax counseling for the elderly (TCE) program, IRS-trained volunteers assist individuals age 60 and over with their tax returns at neighborhood locations in many areas. In addition, certain volunteer income tax assistance (VITA) aides have been trained to help older Americans with their tax returns. Your local IRS office will be able to tell you where and when you can find TCE or VITA assistance in your area.

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CONTENTS

	Page
Preface	III
IRS assistance is available to help you	V
Who must file a Federal tax return is generally determined by your income and your filing status	1
Form 1040EZ	2
Tax withholding and estimated tax payments	2
Tax table and exemptions:	
Tax table	3
Deductions for two-earner married couples	4
Exemptions	4
Multiple support agreements	4
Presidential election campaign fund	5
Political contributions	5
Checklist of itemized deductions for Schedule A (Form 1040):	
Medical and dental expenses:	
Drugs and medicines	6
Examples of unreimbursed medical and dental expenses	6
Insurance premiums	7
Taxes	8
Interest:	
Bank and other general purposes credit cards	8
Points	9
Penalty for prepayment of a mortgage	9
Revolving charge accounts	9
Contributions	9
Casualty or theft losses	10
Miscellaneous deductions	10
Educational expenses	11
Business use of your home	11
Employee expenses	11
Expenses of producing income	11
Credits	11
Credit for the elderly	12
Earned income credit	12
Credit for child and dependent care expenses	12
Residential energy credit	13
Sale of your personal residence	14
Savings incentives:	
All-savers certificate	14
Dividend exclusion	14
Exclusion of reinvested stock dividends from public utilities	14
Individual retirement accounts	15
Keogh plans	15

WHO MUST FILE A FEDERAL TAX RETURN IS GENERALLY DETERMINED BY YOUR INCOME AND YOUR FILING STATUS

You must file a return for 1982, even though you owe no tax if:	*And your income was at least:*
1. You were single, divorced, or married with a dependent child and living apart from your spouse for all of 1982 and were:	
Under age 65	$3,300
Age 65 or over	$4,300
2. You were married filing a joint return and were living with your spouse at the end of 1982 or on the date your spouse died and:	
Both were under age 65	$5,400
One was age 65 or over	$6,400
Both were 65 or over	$7,400
3. You were married filing a separate return or married but you did not share the same household at the end of 1982	$1,000
4. You were a qualifying widow(er) with a dependent child and:	
Under age 65	$4,400
Age 65 or over	$5,400
5. You received *any* advance earned income credit (EIC) payments from your employer(s) during 1982.	
6. You were self-employed and your net earnings from this work were at least *$400,* then you must file a return to pay self-employment tax. You are self-employed if you carry on a trade or business as a sole proprietor, a member of a partnership, or an independent contractor. This includes certain part-time work that you do at home or in addition to your regular job. This rule applies regardless of your age; whether or not you are receiving social security benefits; and even if you are otherwise not required to file a Federal tax return.	

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7. Income tax was withheld from your pay, then you should file a return so that you can get a refund of the tax withheld, even if you are not required to file a return.

FORM 1040EZ

There is a new tax return form for 1982, called Form 1040EZ. You may only use this form if:

(1) You are single.

(2) You do not claim an extra exemption for age and blindness.

(3) You claim no dependents.

(4) Your taxable income is less than $50,000.

(5) Your income is all from wages, salaries, tips, and interest of $400 or less; and

(6) You do not itemize your deductions.

You should use the new form if you meet these qualifications, because it is easier to fill out than the other forms. If you cannot use Form 1040EZ, you should use either Form 1040 or Form 1040A.

TAX WITHHOLDING AND ESTIMATED TAX PAYMENTS

Beginning January 1, 1983, Federal income tax will be withheld from the taxable part of most pension and annuity payments. If you receive periodic pension or annuity payments, you can help make sure that the right amount of tax is withheld by giving the payer of your pension or annuity a Form W–4P, or a similar statement, showing your marital status and the number of withholding allowances to which you are entitled. If you do not give the payer a Form W–4P, tax will be withheld as if you are married claiming three withholding allowances. You may also use this form to tell the payer that you do not want any tax withheld. If you receive a nonperiodic distribution, the payer can tell you the amount that will be withheld.

Beginning July 1, 1983, tax will also be withheld from many interest and dividend payments. The amount withheld will be 10 percent of each payment. However, individuals will not be required to have their tax withheld. And, certain payers may be allowed to delay withholding until 1984. You may choose not to have tax

withheld from the interest and dividends you receive if:

(1) Your tax for last year was $600 or less.

(2) You are 65 or older, and your tax for last year was $1,500 or less.

(3) You filed a joint return for last year, and your tax was $1,000 or less.

(4) Either you or your spouse (or both) is 65 or older, you filed a joint return last year, and your tax was $2,500 or less; or

(5) You (or you and your spouse) were not required to file an income tax return for last year.

If you qualify to be exempt from withholding and you do not want tax withheld, you should give the payer of your interest or dividends an exemption certificate (Form W–6 or other form provided by the payer) so that tax will not be automatically withheld.

Remember, if no tax or not enough tax is withheld from your income, you may need to pay estimated tax.

Your estimated tax generally is the total of your expected income tax and self-employment tax minus your expected withholding and credits. Form 1040–ES provides a worksheet for making this computation.

If your estimated tax for 1983 is $300 or more and your estimated gross income not subject to withholding includes more than $500 of taxable income, you must use Form 1040–ES and pay estimated taxes. Installment payments are due April 15, June 15, September 15, and January 15.

You may be charged a penalty if you do not pay enough estimated tax. However, the penalty will not apply if you make each payment on time *and:*

(1) The payment is at least 80 percent of the amount of estimated tax due based on the tax shown on your tax return, or

(2) The payment is based on one of four exceptions shown on Form 2210, "Underpayment of Estimated Tax by Individuals."

TAX TABLE AND EXEMPTIONS

TAX TABLE

The tax table has been developed to make it easier for you to find your tax if your taxable income (line 16, Form 1040A; line 7, Form 1040EZ; line 37, Form 1040) is

less than $50,000. You *must* use this table *unless* you compute your tax using Schedule G (income averaging). In that case, you must use the tax rate schedules. The tax table is designed to be used by individuals (other than Schedule G filers) whether or not they itemize their deductions. This is possible because of an adjustment made on Schedule A and an amount built into the tax table known as the "zero bracket amount." This flat amount based on your filing status provides a minimum deduction for all individuals. If you are married filing jointly or a qualifying widow or widower, your zero bracket amount is $3,400. If you are single or a head of household, your zero bracket amount is $2,300. If you are married filing separately, it is $1,700.

DEDUCTIONS FOR TWO-EARNER MARRIED COUPLES

Two-earner married couples filing jointly are allowed a deduction based upon the earnings of the spouse with the least income. The 1982 maximum deduction is $1,500.

EXEMPTIONS

You are allowed a $1,000 deduction for each exemption shown on your tax return (line 5e, Form 1040A; line 6, Form 1040EZ; line 6e, Form 1040). You and your spouse are allowed an additional $1,000 exemption if either or both of you are age 65 or older on the last day of the tax year.

In addition, you or your spouse may be able to claim a *$1,000* exemption for blindness (refer to your tax instruction booklet for more details on this exemption). Age and blindness are determined on the last day of your tax year. This is December 31 for most taxpayers. You are considered age 65 on the day before your 65th birthday. Thus, if your 65th birthday was on January 1, 1983, you may take the extra exemption for age on your 1982 tax return.

MULTIPLE SUPPORT AGREEMENTS

In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) Support, (2) gross income, (3) member of household or relationship, (4) citizenship, and (5) separate return.

The support requirement is that the person claiming the exemption must have contributed more than one-

half of the individual's total living expenses. But in some cases, two or more individuals provide support for an individual, and no one has contributed more than half the person's support. However, it still may be possible for one of the individuals to be entitled to a $1,000 dependency exemption if all of the following requirements for multiple support are met:

(1) Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—together contribute more than half of the dependent's support.

(2) Any one of those who individually contribute more than 10 percent of the mutual dependent's support, but only one of them, may claim the dependency deduction.

(3) Each of the others must file a written statement that he or she will not claim the dependency exemption for that year. The statement must be filed with the income tax return of the person who claims the dependency exemption. Form 2120, "Multiple Support Declaration," may be used for this purpose.

Note: You may include with your medical expenses those medical expenses you paid for a person for whom you meet the support test under a multiple support agreement, even if you may not claim the person as a dependent because he or she had gross income of $1,000 or more.

PRESIDENTIAL ELECTION CAMPAIGN FUND

You may voluntarily choose to have $1 of your taxes ($2 on a joint return) paid into this fund to help pay for Presidential election campaigns. Making this choice will not change the amount of tax you pay or the amount of refund you will receive.

POLITICAL CONTRIBUTIONS

You may take a partial credit (line 44, Form 1040; or line 17a, Form 1040A) for campaign contributions to candidates for Federal, State, or local office, to newsletter funds, and to political committees of candidates and elected public officials. The amount of the tax credit is limited to one-half of the political contribution, with a $50 ceiling ($100 for couples filing a joint return). You must have a written receipt to prove your contribution.

Canceled checks will, in most cases, meet the requirements for a written receipt.

CHECKLIST OF ITEMIZED DEDUCTIONS FOR SCHEDULE A (FORM 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses are payments you make for the diagnosis, cure, relief, treatment, or prevention of disease. They also include payments for treatment affecting any part or function of the body. Expenses for transportation for needed medical care are included in medical expenses. Payments for insurance that provides medical care for you, your spouse, and dependents are included in medical expenses. Unreimbursed expenses are deductible to the extent they are more than 3 percent of your adjusted gross income (line 33, Form 1040). Expenses may be deducted only in the year you paid them. If you charge medical expenses on your credit card, the expenses are deducted in the year the charge is made regardless of when the bill is paid.

Drugs and medicines.—Medicines and drugs legally obtained and generally recognized as medicines and drugs are deductible. They do not have to be prescribed. These items are included in medical expenses (subject to the 3-percent rule) but only to the extent they exceed 1 percent of adjusted gross income (line 33, Form 1040).

Examples of unreimbursed medical and dental expenses.—You may deduct the costs of:

—Medicines, drugs, vaccines, and vitamins recommended by your doctor.

—Doctors, surgeons, dentists, eye doctors, gynecologists, chiropractors, osteopaths, podiatrists, chiropodists, psychiatrists, psychologists, physical therapists, acupuncturists, Christian Science practitioners, and psychoanalysts.

—Medical examination, X-rays and laboratory services, insulin treatments, and whirlpool baths ordered by a doctor.

—Nursing help. However, if you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.

—Hospital care (including meals and lodging), clinic costs, lab fees.

—Medical treatment at a center for drug addicts or alcoholics.
—Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, orthopedic shoes, crutches, wheelchairs, guide dogs and the cost of maintaining them if you are blind or deaf.
—Oxygen equipment and oxygen to relieve problems in breathing caused by a medical condition.
—Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received medical care, or you may claim 9 cents a mile. Add parking fees and tolls to the amount you claim under either method.
—Cosmetic surgery.
—Cost and repair of special telephone equipment for the deaf.
—Extra cost of a specially equipped television set and the cost of an adapter for a regular set that provides subtitles for a deaf person.
—Part of the cost of braille books and magazines that is more than the price for regular books and magazines.
—Capital expenditures for medical purposes, such as air-conditioning or elevators. If these expenses are for permanent improvements that increase the value of the property, you may include them as medical expenses only to the extent that they are more than the increase in the value of the property.
—Cost of a nursing home (including meals and lodging) if the availability of medical care is a principal reason for being in the nursing home.
—Medical care included in the "life-care fee" or "founders fee" of a retirement home that is paid monthly or as a lump sum under an agreement with the home. The deductible amount must be set apart for medical care.
—Cost of special equipment, such as a motorized wheelchair or autoette, special hand controls and other special equipment installed in a car specifically for the use of a physically handicapped person.

Insurance premiums.—One-half of medical, hospital, or health insurance premiums are deductible (up to $150) without regard to the 3-percent limitation for

other medical expenses. The remainder of these premiums can be deducted subject to the 3-percent rule.

Beginning in 1983, you may only deduct those medical expenses that are more than 5 percent of your adjusted gross income. The separate deduction for half of your health insurance premiums up to $150 will be eliminated. The full amount of the premiums will be included in medical expenses and be subject to the 5-percent limit.

Beginning in 1984, the 1-percent limit on drugs will be eliminated. The deduction for drugs will be allowed only for prescription drugs and insulin and will be subject to the 5-percent limit.

TAXES

- Real estate
- General sales
- State, local, or foreign income
- Personal property

If the sales tax tables are used in arriving at your deduction, generally the only additional sales taxes you may add to the table amount are those you paid to purchase the following items: Automobiles, trucks, motorcycles, airplanes, boats, mobile homes, and material used to build a new home if the sales tax on the materials is imposed on you.

When using the sales tax tables, add to your adjusted gross income any nontaxable income such as social security, veterans, and railroad retirement benefits, workers' compensation, the untaxed part of long-term capital gains, dividends untaxed because of the exclusion, interest on municipal bonds, untaxed interest on all-savers certificates, the untaxed part of unemployment compensation, untaxed disability income, the deduction for a married couple when both work, and public assistance payments.

INTEREST

- Personal loan
- Home mortgage
- Auto loan
- Loans on life insurance
- Installment purchases

Bank and other general purposes credit cards.—Deduct the finance charge added to your monthly statement if no part of the charge was for investigation fees, membership fees, loan fees, service charges, or similar charges.

Points.—When buying a residence, "points" are interest paid in advance. You may deduct the amount you pay as points in the year of the payment—if the loan is used to buy or improve your principal residence and is secured by that residence. In addition, the payment of points must be an established business practice in the area where the loan was made, and the points must not exceed the number of points generally charged in your area.

If the residence you purchase is not your principal residence, you may not deduct the full amount for points in the year paid. Instead, the prepaid interest paid as points must be spread over the life of the mortgage, and it is considered "paid" and is deductible over that period.

Points are not deductible if they represent charges for services rendered by the lending institution (e.g., VA or FHA points are not deductible as interest). Also, points are not deductible if paid by the seller. These are selling expenses that reduce the amount realized.

Penalty for prepayment of a mortgage.—This is deductible as interest.

Revolving charge accounts.—These finance charges may be deducted if separately stated on your bill.

CONTRIBUTIONS

In general, contributions to religious, charitable, educational, scientific, or literary organizations may be deducted up to 50 percent of your adjusted gross income (line 33, Form 1040). Contributions to certain private nonoperating foundations, veterans organizations, fraternal societies, or nonprofit cemetery companies are limited to 20 percent of adjusted gross income (line 33, Form 1040). There is a limit of 30 percent of adjusted gross income for contributions of certain capital gain property. Special rules also apply to contributions of appreciated property. To deduct your contributions, you must make them in cash or other property before the close of your tax year. Other property (clothing, books, furniture, etc.) is deducted at the fair market value. You may deduct contributions you charge to your bank credit card in the year the charge is made.

Examples of other charitable contributions include:

—The cost and upkeep of uniforms that you must wear while performing charitable activities.

—Out-of-pocket expenses (postage, phone calls, stationery) while providing services without pay to a charitable organization.
—Payment of more than the fair market value to an organization for goods, merchandise, services, banquets, shows, sporting events, etc.
—You may also deduct unreimbursed out-of-pocket expenses directly related to services you give to a charitable organization, such as gas and oil for your car. If you do not want to deduct actual expenses, you may use a standard rate of 9 cents a mile. In either case you may deduct parking fees and tolls.

Partial deduction for nonitemizers. For 1982 and 1983, you may deduct 25 percent of the first $100 of contributions ($50 for a married person filing a separate return) if you do not itemize your deductions. For 1984, the deduction for nonitemizers will be 25 percent of the first $300 ($150 for a married person filing a separate return). For 1985, the deduction will be 50 percent of all qualifying contributions, and for 1986, it will be 100 percent. The deduction for nonitemizers will not be available after 1986.

CASUALTY OR THEFT LOSSES

You may deduct casualty losses, such as tornado, flood, storm, fire, auto accident (provided not caused by a willful act or willful negligence), or theft losses. The amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty, or (2) your adjusted basis in the property. This amount must be further reduced by any insurance or other recovery, and, in the case of property held for personal use, by the $100 limitation. You must use Form 4684 to figure your casualty or theft loss. Report your casualty or theft loss on Schedule A.

For tax years beginning after 1982, your nonbusiness casualty or theft losses will be deductible only to the extent that your total losses during the year exceed 10 percent of your adjusted gross income. You still must reduce each separate casualty or theft by $100.

MISCELLANEOUS DEDUCTIONS

In addition to the other itemized deductions, you may deduct certain miscellaneous expenses on Schedule A,

Form 1040. A list of the most common expenses follows. For more information, see Publication 529, "Miscellaneous Deductions."

Educational expenses.—Amounts you paid for education that is: (1) Required by your employer to maintain your position, or (2) for maintaining or improving skills you must have in your present position.

Business use of your home.—You may deduct expenses for business use of part of your home only if you use that part exclusively and continuously in your work and for the convenience of your employer.

Employee expenses.—Examples of expenses you may deduct if you were not reimbursed for them are:

—Union dues.
—Safety equipment, small tools, and supplies you need for your job.
—Protective clothing, such as hard hats and safety shoes.
—Uniforms required by your employer which you cannot usually wear away from work.
—Maintenance of uniforms required by your employer.
—Costs of bond, if required for employment.
—Physical examinations required by your employer.
—Dues to professional organizations and chambers of commerce.
—Fees to employment agencies and other costs to get a new job in your present trade or profession.

Expenses of producing income.—You may deduct what you paid to produce or collect taxable income or to manage or protect property held for producing income.

Examples of these expenses are:

—Tax return preparation fees.
—Safe deposit box rental.
—Custodial (e.g., trust accounts) fees.
—Fees paid to investment counselors.
—Fees to collect taxable interest or dividends.
—Gambling losses, but not more than gambling winnings.

CREDITS

Tax credits are used to reduce the amount of tax you owe. All credits must be taken on Form 1040, with the exception of the credit for contributions to candidates

for public office and the earned income credit which may be taken on Form 1040A. No credits may be taken on Form 1040EZ.

The most common credits are:

CREDIT FOR THE ELDERLY

You may be able to claim this credit and reduce taxes by as much as $375 (if single) or $562.50 (if married filing jointly) if you are: (1) Age 65 or over, or (2) under age 65 and retired under a public retirement system.

For more information, see the instructions for Schedule R & RP.

EARNED INCOME CREDIT

If you have a dependent child who shares your principal residence in the United States, you may be entitled to a special payment or credit of up to $500. This is called the earned income credit. It may come as a refund check or be applied against any taxes owed. Generally, if you reported earned income and had adjusted gross income (line 33, Form 1040 or line 12, Form 1040A) of less than $10,000, you may be able to claim the credit.

Earned income means wages, salaries, tips, strike benefits, other employee compensation, disability pensions, and net earnings from self-employment (generally the amount shown on Schedule SE (Form 1040) line 9). A married couple must file a joint return to be eligible for the credit. Certain married persons living apart with a dependent child may also be eligible to claim the credit.

For more information, see instructions for Form 1040 or 1040A.

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

A portion of certain payments made for child and dependent care may be claimed as a credit against tax.

If you maintained a household that included your dependent under age 15 *or a dependent or spouse incapable of self-care,* you may be allowed a credit for employment-related child and dependent care expenses. These expenses must have been paid during the taxable year in order to enable you to work either full or part time.

The amount of credit is 30 percent of your qualifying expenses if your adjusted gross income (line 33, Form

1040) is $10,000 or less. The 30-percent rate is reduced by 1 percent for each additional $2,000 of adjusted gross income (or part of $2,000) until the percentage is reduced to 20 percent for income above $28,000.

The maximum amount of expenses that may be used to compute the credit is $2,400 for one qualifying person and $4,800 for two or more qualifying persons.

See Form 2441 for more information, including a special rule for divorced or separated taxpayers.

RESIDENTIAL ENERGY CREDIT

The residential energy credit was designed to encourage energy saving and the development of renewable energy sources. There are two energy credits, each with its own conditions and limits. These credits are based on: (1) Costs for home energy conservation, and (2) costs for renewable energy source property.

A credit of up to $300 may be claimed for expenditures for energy conservation property installed in or on your principal residence, whether you own or rent it. The residence must have been substantially completed by April 20, 1977. Items eligible for the credit are limited to the following: Insulation (fiberglass, cellulose, etc.) for ceilings, walls, floors, roofs, water heaters, etc.; exterior storm (or thermal) windows or doors; calking or weatherstripping for exterior windows or doors; a furnace replacement burner that reduces the amount of fuel used; a device to make flue openings (for a heating system) more efficient; an electrical or mechanical furnace ignition system that replaces a gas pilot light; an automatic energy-saving setback thermostat; and a meter that displays the cost of energy usage.

For years beginning after 1979, the maximum credit for renewable energy source property is $4,000. Equipment used in the production or distribution of heat or electricity from solar, geothermal, or wind energy sources for residential heating, cooling, or other purposes may qualify for this credit.

Examples of items that *do not* qualify for energy credit are the following: Carpeting, drapes, awnings, shades, wood paneling, fire screens, new or replacement walls (except for insulation inside the walls), exterior siding, heat pump, wood or peat burning stoves, fluorescent lights, hydrogen fueled residential equipment,

equipment using wind energy for transportation, expenditures for a swimming pool used as an energy storage medium, and greenhouses.

For further information, consult the instructions for Form 5695, "Residential Energy Credits," and IRS Publication 903, "Energy Credits for Individuals."

SALE OF YOUR PERSONAL RESIDENCE

You may exclude from your gross income some or all of your gain from the sale or exchange of your principal residence, if you meet certain age, ownership, and occupancy requirements at the time of the sale or exchange. If you were age 55 or older on the date of sale or exchange you may elect to exclude up to $125,000 of gain provided you owned and occupied the residence for 3 of the 5 years ending on the date of sale.

In addition, payment of the tax on the gain from the sale or exchange of your personal residence will be deferred if, within 24 months before or 24 months after the sale or exchange, you buy and occupy another residence, the cost of which equals or exceeds the adjusted sales price of the old residence.

Taxable gains from the sale of your residence should be reported on Schedule D. Losses from such a sale are not deductible. Form 2119, "Sale or Exchange of Principal Residence," is used to report the sale of your principal residence whether or not you bought another one.

See Publication 523, "Tax Information on Selling Your Home."

SAVINGS INCENTIVES

All-savers certificate.—An exclusion of up to $1,000 ($2,000 for a joint return) is provided for interest on qualified savings certificates. These "all-savers" certificates must have been issued after September 30, 1981, and before January 1, 1983, and must have a yield equal to 70 percent of the yield on 52-week Treasury bills.

Dividend exclusion.—Beginning in 1982, you may exclude up to $100 on a separate return and up to $200 on a joint return of your qualifying dividend income. There is no longer any exclusion of dividends and interest.

Exclusion of reinvested stock dividends from public utilities.—Beginning in 1982, shareholders in a domestic

public utility corporation who choose to receive their dividends in the form of qualified common stock may exclude up to $750 ($1,500 for a joint return) from taxable income.

Individual retirement accounts.—Beginning in 1982, the limit on contributions has been increased to the lesser of 100 percent of compensation or $2,000. In addition, workers covered by a company or government pension may participate in an IRA. The law also increases the limit on spousal IRA's and eliminates the provision that contributions be equally divided. See Publication 590, "Tax Information on Individual Retirement Arrangement," for more information.

Keogh plans.—For 1982 and later years, important changes have been made to the rules on self-employment (H.R. 10/Keogh) retirement plans. Some of the changes include: (1) An increased limit on the deductible amount an employer can pay to a plan on behalf of a self-employed individual, (2) the new right of a participant in an H.R. 10 plan to make payments to an individual retirement arrangement (IRA), (3) an increased limit on each employee's compensation that may be taken into account in figuring contributions or benefits under the plan, and (4) the new right to make a tax-free withdrawal of excess payments. For more information, see Publication 560, "Tax Information on Self-Employed Retirement Plans."

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